

after September 12, 1966. The income tax treatment of exploration expenditures paid or incurred before September 13, 1966, will be determined in accordance with the provisions of section 615 prior to its amendment by the Act of September 12, 1966 (Public Law 89-570, 80 Stat. 759). If a taxpayer makes an election under section 615(e) in his income tax return for a taxable year which begins before September 13, 1966, and which ends after September 12, 1966, amounts deducted and amounts deferred under section 615 with respect to expenditures paid or incurred during such taxable year but before September 13, 1966, will be taken into account in determining whether the \$100,000 limitation set forth in section 615(a) is reached during the taxable year. Similarly, a taxpayer who makes an election under section 615(e) shall take into account expenditures deducted or deferred under section 615 for the period prior to September 13, 1966, in determining when the \$400,000 overall limitation set forth in section 615(c) is reached. The fact that a taxpayer deducts or defers under section 615 exploration expenditures paid or incurred prior to September 13, 1966, shall not affect his right to make an election under section 617(a) to deduct under section 617 expenditures paid or incurred after September 12, 1966.

(2) *Allocation in case of inadequate records.* If a taxpayer pays or incurs exploration expenditures during a taxable year beginning before September 13, 1966, and ending after September 12, 1966, but his records as to any mine or property are inadequate to permit a determination of the amount paid or incurred during the portion of the year ending after September 12, 1966, and the amount paid or incurred on or before such date, the exploration expenditures, as to which the records are inadequate, paid or incurred with respect to the mine or property during the taxable year shall be allocated to each part year (that is, the part occurring before September 13, 1966, and the part occurring after September 12, 1966) in the same ratio which the number of days in each such part year bears to the number of days in the entire taxable year. For example, if the records of a calendar year taxpayer for 1966 are

inadequate to permit a determination of the amount of exploration expenditures paid or incurred with respect to a certain mine or property after September 12, 1966, and the amount paid or incurred before September 13, 1966, 255/365 of the total exploration expenditures paid or incurred by the taxpayer with respect to the mine or property during 1966 shall be allocated to the period beginning January 1, 1966, and ending September 12, 1966, and 110/365 of the total exploration expenditures paid or incurred with respect to the mine or property during 1966 shall be allocated to the period beginning September 13, 1966, and ending December 31, 1966.

(3) *Partnership elections.* With respect to exploration expenditures paid or incurred by a partnership before September 13, 1966, the option to deduct under section 615(a) and the election to defer under section 615(b) shall be made by the partnership, rather than by the individual partners. With respect to exploration expenditures paid or incurred by a partnership after September 12, 1966, all elections under sections 615 and 617 as to the tax treatment of a partner's distributive share of exploration expenditures paid or incurred by a partnership of which he is a member shall be made by the individual partner, rather than by the partnership. See section 703(b) and the regulations thereunder.

[T.D. 7192, 37 FR 12939, June 30, 1972]

**§ 1.615-7 Effect of transfer of mineral property.**

(a) *Transfer before election by transferor.* (1) If mineral property is transferred in a transaction as a result of which the basis of the property in the hands of the transferee is determined in whole or in part by reference to the basis in the hands of the transferor and the transferor had not made an election under either section 615(e) or 617(a) at the time of the transfer, no election made by the transferor after the transfer shall apply with respect to expenditures properly chargeable to the transferred property which were paid or incurred before the date of the transfer.

(2) For purposes of subparagraph (1) of this paragraph, a transferor of mineral property who made an election

under section 617(a) or section 615(e) before the transfer but who revokes such election after such transfer and does not make an election under either section before the expiration of the 3-year period prescribed by section 6072 or other provision of law for filing his income tax return for the taxable year in which such transfer occurred shall be treated with respect to such property as not having made an election under either section.

(b) *Transfer after election by transferor.* If a transferee who at the time of the transfer of a mineral property has not made an election under section 617(a) receives property in a transaction in which the basis of such property in his hands is determined in whole or in part by reference to its basis in the hands of the transferor and with respect to such property the transferor has deducted expenditures under section 617(a), the adjusted exploration expenditures properly chargeable to the property immediately after the transfer shall be treated as expenditures allowed as deductions under section 617(a) to the transferee. See section 617 and the regulations thereunder.

(c) *Transfer after election by transferee.* (1) If a transferee who makes an election under section 617(a) receives before January 1, 1970, mineral property in a transaction in which the basis of such property in his hands is determined in whole or in part by reference to the basis of the property in the hands of the transferor and the transferor had in effect at the time of the transfer an election under section 615(e), an amount equal to the total of the amounts allowed as deductions to the transferor under section 615 with respect to the transferred mineral property shall be treated as expenditures allowed as deductions under section 617(a) to the transferee. The preceding sentence shall not apply to expenditures which would not have been reflected in the basis of the property in the hands of the transferor had the transferor not made the section 615(e) election.

(2) Any expenditures with respect to the transferred property deferred by the transferor under section 615(b) which are not allowed as deductions to him prior to transfer of the property

may not be deducted by the transferee and in his hands shall be charged to capital account.

[T.D. 7192, 37 FR 12940, June 30, 1972]

#### § 1.615-8 Termination of section 615.

(a) *In general.* The provisions of section 615 shall not apply to exploration expenditures paid or incurred after December 31, 1969. Expenditures paid or incurred before January 1, 1970, which were deferred under section 615(b) will be deductible under such section after such date as the units of ore or mineral discovered or explored by reason of such expenditures are sold. An election under section 615(e) with respect to expenditures paid or incurred prior to January 1, 1970, shall remain in effect with respect to such expenditures unless it is revoked under section 615(e) and § 1.615-6. See § 1.615-9 for treatment of a section 615(e) election with respect to expenditures paid or incurred after December 31, 1969.

(b) *Taxable years beginning before January 1, 1970, and ending after December 31, 1969—*(1) *In general.* The termination of section 615 applies to expenditures paid or incurred after December 31, 1969. The income tax treatment of exploration expenditures paid or incurred before January 1, 1970, will be determined in accordance with the provisions of sections 615 and 617 prior to their amendment by the Tax Reform Act of 1969 (83 Stat. 487). The fact that on his income tax return for a taxable year beginning before January 1, 1970, and ending after December 31, 1969, a taxpayer deducts under section 615 expenditures paid or incurred before January 1, 1970, shall not affect his right to deduct under section 617(a) expenditures paid or incurred during such taxable year after December 31, 1969.

(2) *Allocation in case of inadequate records.* If a taxpayer pays or incurs exploration expenditures during a taxable year beginning before January 1, 1970, and ending after December 31, 1969, but his records are inadequate to permit a determination of the amount paid or incurred during the portion of the year ending after December 31, 1969, and the amount paid or incurred on or before such date, the exploration expenditures as to which the records are inadequate paid or incurred with respect to the